



The Commonwealth of Massachusetts
Executive Office of Health and Human Services
Department of Public Health
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MEMORANDUM

To: Interested Parties

From: Bernard Plovnick, Director, Determination of Need Program

Subject: Annual Adjustments to DoN Expenditure Minimums

Date: March 24, 2015 (Updated)¹

Each year, pursuant to M.G.L. c.111, § 25B½, the Determination of Need Program issues an informational bulletin on annual adjustments to the Determination of Need expenditure minimums to adjust the Substantial Capital Expenditure dollar amount for inflation.

Section 25B ½ specifies the use of an inflation index established by the U.S. Department of Health and Human Services. In place of a federal index such as the Consumer Price Index, the Determination of Need Program has historically performed annual adjustments to DoN expenditure minimums using Marshall & Swift² indices for capital expenditures involving construction and equipment. For operating costs, the DoN program has used IHS³ (formerly Global Insight) as the source for inflation adjustment factors based upon the CMS Market Baskets for inpatient hospital and skilled nursing facilities. These indices are the basis for the adjustment of expenditure minimums for the period from October 1, 2014 through September 30, 2015.

¹ Updated only to reflect changes enacted in St. 2014, c. 420, which moved non-acute hospitals into the same category as acute hospitals effective March 24, 2015. Expenditure minimum dollar amounts remain unchanged for the period October 1, 2014 through September 20, 2015.

² See Attachment 1

Effective October 1, 2014, Determination of Need expenditure minimums are adjusted as shown below; the adjustment factors used to update the expenditure minimums are provided in Attachment 1.

Minimum Capital Expenditure Requiring Determination of Need

Project Type	Previous Year 30-Sep 2013 to 1-Oct-2014	Effective 1-Oct-2014 to 30-Sep-2015
Equipment for long term care facilities and clinics	\$904,579	\$939,659
Total capital expenditure (including equipment) for long term care facilities and clinics	\$1,809,158	\$1,879,317
Capital expenditure (excluding major movable equipment) for hospitals and comprehensive cancer centers	\$16,960,878	\$17,618,623
Outpatient service expenditures and acquisitions other than new technology or innovative services	\$27,663,792	\$28,736,598

Minimum Incremental Operating Cost Requiring Determination of Need

Nursing Homes, Rest Homes and Clinics	\$809,516	\$825,243
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Attachment 1

ANNUAL INFLATION FACTORS APPLIED TO ADJUST DON EXPENDITURE MINIMUMS

October 1, 2014

Capital Cost Indices (Marshall & Swift)⁴:

	Oct-13	Oct-14
Region - Eastern	3006.2	3069.4
Massachusetts	1.15	1.17

$$\frac{3069.4}{3006.2} \times \frac{1.17}{1.15} = \mathbf{1.039}$$

Operating Costs (IHS)⁵:

	4th Quarter 2013	4th Quarter 2014
Skilled Nursing Facility Total Market Basket - Other Capital Related Expenses (Calendar year 20010=1.000): Table 6.6CY	1.084	1.094
2010-Based CMS Hospital Prospective Reimbursement Market Basket - Total (Calendar Year 2010=1.000): Table 6.1CY	1.080	1.112

$$(1.094/1.084) + (1.112/1.080) / 2 = \mathbf{1.019}$$

⁴ Marshall & Swift Current Cost Multipliers, October 2014

⁵ IHS Healthcare Cost Service, Second Quarter 2014 Forecast, Updated: August 6, 2014